OFFICE OF THE COMMISSIONER

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DEPARTMENT OF COMMERCE

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BULLETIN 92-10

Issued this 21st day
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To: ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA.

This bulletin supersedes bulletins 91-7 and 91-7A and reminds all crop hail insurers of the requirements of Minnesota Statute 70A.04. Subdivision 1 states "rates shall not be excessive, inadequate or unfairly discriminatory, nor shall an insurer use rates to engage in unfair price competition." In making your crop hail rate filings for the 1993 season, follow these guidelines:

1. Companies are required to make a new rate filing for the 1993 season and no new business may be written until your new rates are effective. Present rates are based on the National Crop Insurance Service (NCIS) loss costs through the 1988 crop season. NCIS now have loss costs filed through the 1991 crop season and companies must re-file to reflect the new NCIS filing. All data must be documented and filed to justify your rates.

2. Your filing must use the NCIS 1948-1991 final average loss costs with catastrophe (FALC), or loss costs developed by using meaningful statistics from a large data base for a minimum of 20 years. Companies using the NCIS FALC will be allowed to adjust the NCIS FALC if their previous experience for a minimum of ten years compared to NCIS for the same time period justifies it. Companies with a minimum of 10 years experience will be allowed, after justification, to determine and use their own crop and policy form factors. If an insurer can use their own experience, they cannot deviate, either up or down, more than 15% from the NCIS loss costs. If an insurer can modify NCIS FALC by their own experience, then a consistent methodology throughout the filing is necessary. This applies to the crop classes and also the policy form factors.

3. Include an expense statement broken down by Production Expenses; Taxes; Licenses & Fees; General Expenses; Loss Adjusting Expenses; Contingencies; Other Expenses; and Anticipated Underwriting Profit.

4. The formula for calculating the base rate is: Base Rate = NCIS FALC/(1.00-(Expense Load + Anticipated Profit)). If your own experience can be used as explained in item 2, replace NCIS FALC in the formula with that experience.

5. DISCOUNTS:

a. Cash discounts are limited to a maximum of 5% unless a higher discount can be justified. (The discount allowed was 6% in 1992). The cash must be paid by July 1st of the crop season to qualify for the discount, unless the policy is written after July 1st, then the cash must accompany the application to the processing office to qualify for the discount.

b. Claim free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.

c. Unless actuarially justified a maximum discount of 2% will be allowed on crop hail premiums if a Multi-Peril policy (MPCI) is involved, and only on the same crops insured under the MPCI.

d. Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings.

e. Any other discounts must be actuarially justified and submitted over the signature of a property/casualty actuary.

6. Policy form factors that are different than those filed by NCIS must be actuarially justified.

7. In order to keep rates from increasing drastically and to maintain stability to the rate structure, the maximum increase over your 1992 rates on full coverage policies for NCIS class A crops will be the lesser of 50% or $1.50 per $100 of insurance, and for class S crops, the lesser of 50% or $3.00 per $100 of insurance. However, in no event shall rates be less than the current NCIS loss costs unless your experience described under item 2 dictates otherwise. Use the appropriate crop and policy form factors on the limited full rate to develop all other rates. If this limitation creates a critical financial situation, non-conforming increases may be considered with appropriate verification of your financial status.

8. Indicate, in the filing, what percentage your rates increased from 1992 to 1993, and also how much they would have increased if item 7 wasn't restricting the increase.

Questions regarding this bulletin should be referred to Ms. Tammy Lohmann, Commerce Analyst, 612-296-2327 or to William R. Kyle, Commerce Analyst Supervisor, 612-296-2656.

Bert J. McKasy

BERT J. McKASY, Commissioner